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FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 9372

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EO 11652 NA

TAGS: ECON EGEN YO

SUBJ: YUGOSLAV ECONOMIC TRENDS: PRELIMINARY 1976 RESULTS

REF: (A) 76 BELGRADE 8220, (B) 76 BELGRADE A-256

SUMMARY: WHILE OFFICIAL YEAR-END FIGURES ARE NOT YET AVAILABLE FOR MOST CATEGORIES, PRELIMINARY RESULTS MAKE IT CLEAR THAT WITH A FEW MAJOR EXCEPTION, YUGOSLAV ECONOMIC INDICATORS SHOWED SUBSTANTIAL IMPROVEMENT IN 1976. INFLATION WAS CUT TO LESS THAN ONE-HALF THE 1975 LEVEL; THE TRADE DEFICIT DECREASED BY OVER ONE BILLION DOLLARS; EXPORTS INCREASED BY 20 PERCENT; RESERVES INCREASED TO RECORD LEVELS; AND THE CURRENT ACCOUNT WAS IN RELETIVE BALANCE. WHILE INDUSTRIAL PRODUCTION INCREASED ONLY SLIGHTLY MORE THAN ONE-HALF OF THE PLANNED RATE, THE TREND IN THE LST HALF OF THE YEAR WAS MORE POSITIVE. OTHER WEAK POINTS IN 1976 WERE STAGNATING PRODUCTIVITY, WAGE INCREASES HIGHER THAN BUSINESS RESULTS WOULD WARRANT, A LOW RATE OF INVESTMENT, AND CONTINUING PRESSURE ON PRICES. EMPLOYMENT GREW AT A HIGHER RATE THAN PROJECTED, BUT UNEMPLOYMENT GREW EVEN FASTER. END SUMMARY.

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1. TRADE: ACCORDING TO PRESS ACCOUNTS, THE 1976 TRADE DEFICIT TOTALLED 2.489 BILLION DOLLARS, A REDUCTION OF ALMOST ONE-THIRD FROM THE 1975 DEFICIT OF 3.6 BILLION DOLLARS. EXPORTS INCREASED 20 PERCENT OVER 1975 TO 4.878 BILLION DOLLARS. THIS INCLUDED A 40 PERCENT INCREASE IN EXPORTS TO WESTERN DEVELOPED COUNTRIES; A 12 PERCENT INCREASE TO SOCIALIST COUNTRIES; AND AN 8 PERCENT

INCREASE TO DEVELOPING COUNTRIES. IMPORTS DECLINED BY 4 PERCENT TO 7.367 BILLION DOLLARS, MAINLY REFLECTING A REDUCTION OF 14 PERCENT IN TRADE WITH WESTERN DEVELOPED COUNTRIES.

2. NOVEMBER AND DECEMBER IMPORT FIGURES CONFIRM THAT THE EXPECTED EASING OF IMPORT RESTRICTIONS TOWARD THE END OF 1976 (REFLECTING THE CURRENT ACCOUNT SURPLUS EXISTING AT THE END OF OCTOBER) DID INDEED TAKE PLACE. IMPORTS IN NOVEMBER AND DECEMBER WERE 3 PERCENT AND 13 PERCENT HIGHER THAN IN THE SAME MONTHS IN 1975. THE DECEMBER TRADE DEFICIT OF 380 MILLION DOLLARS, BY FAR THE LARGEST IN 1976, PROBABLY ENDED YUGOSLAV CHANCES TO END 1976 WITH A SURPLUS ON CURRENT ACCOUNT.

3. YEAR-END FIGURES FOR TRADE WITH THE U.S. HAVE NOT YET BEEN REPORTED. IMPORTS FROM THE U.S. THROUGH NOVEMBER WERE DOWN 12 PERCENT TO 332.8 MILLION DOLLARS, WHILE EXPORTS TO THE U.S. INCREASED BY 38 PERCENT TO 330.5 MILLION DOLLARS. TOTAL BILATERAL TRADE FOR THE YEAR IS 7 PERCENT HIGHER THAN IN 1975 AND SEEMS CERTAIN TO REACH AN ALL-TIME HIGH.

4. INVISIBLES: GUEST WORKER REMITTANCES THROUGH NOVEMBER TOTALLED 1.748 BILLION DOLLARS, AN INCREASE OF 10 PERCENT OVER THE SAME PERIOD LAST YEAR AND ALREADY A NEW RECORD ANNUAL INTAKE. TOURIST INCOME DURING THE SAME PERIOD TOTALLED 755 MILLION DOLLARS, AN INCREASE OVER 1975 OF 3.7 PERCENT WHICH RESULTED FROM HIGHER PRICES, RATHER THAN MORE TOURISTS. TOTAL INVISIBLE INCOME FOR THE 11 MONTHS WAS ALREADY AT A RECORD HIGH OF 2.68 BILLION DOLLARS, 7.8 PERCENT HIGHER THAN IN 1975.

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5. THE BIGGEST PERCENTAGE INCREASE IN INVISIBLES WAS NOT, HOWEVER, IN INFLOWS, BUT IN OUTFLOW OF CURRENCY. THROUGH 11 MONTHS OF 1976, THIS OUTFLOW TOTALLED 582 MILLION DOLLARS, AN INCREASE OF 25 PERCENT OVER 1975 AND A RECORD HIGH. IN 1975 THE TOTAL OF THIS CATEGORY WAS ONLY 508 MILLION DOLLARS FOR THE YEAR AS A WHOLE. WHILE NO BREAKDOWN OF THIS CATEGORY IS AVAILABLE, THE INCREASING NUMBER OF YUGOSLAV TOURISTS IN FOREIGN COUNTRIES IS LIKELY THE PRINCIPAL CAUSE AND ONE WHICH MUST BE OF CONCERN TO GOVERNMENT ECONOMISTS.

6. CURRENT ACCOUNT: OFFICIAL YUGOSLAV STATISTICS SHOW THAT YUGOSLAVIA HAD A SURPLUS ON CURRENT ACCOUNT THROUGH NOVEMBER OF 153 MILLION DOLLARS. GIVEN THE HISTORICALLY LOW AMOUNTS OF INVISIBLE EARNINGS IN DECEMBER AND THE SIZE OF THE TRADE DEFICIT IN THAT MONTH, A DEFICIT ON CURRENT ACCOUNT OF AROUND 100 MILLION DOLLARS IS LIKELY FOR 1976 AS A WHOLE. HOWEVER,

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IT IS DIFFICULT TO PREDICT THE FINAL CURRENT ACCOUNT FIGURE FROM THE ABOVE DATA, AS THE TRADE FIGURE IS BASED ON PHYSICAL IMPORTS AND EXPORTS DURING THE MONTH (UNLIKE THE CURRENT ACCOUNT, WHICH IS DETERMINED BY ACTUAL PAYMENTS DURING THE MONTH FOR EXPORTS AND IMPORTS). THE DIFFERENCE BETWEEN PHYSICAL TRADE AND ACTUAL PAYMENTS CAN BE VERY SIGNIFICANT. THE NOVEMBER FIGURES INDICATE, FOR EXAMPLE, THAT THE TRADE DEFICIT CALCULATED ON THE BASIS OF PHYSICAL IMPORTS AND EXPORTS WAS 162 MILLION DOLLARS, WHEREAS IT WAS 332 MILLION DOLLARS CALCULATED ON THE BASIS OF ACTUAL PAYMENTS.

7. RESERVES: THE RESERVE LEVEL AT THE END OF 1976 WAS 2.7 BILLION DOLLARS, INCLUDING 2.2 BILLION DOLLARS IN OFFICIAL RESERVES AND

500 MILLION DOLLARS IN COMMERCIAL BANKS. NATIONAL BANK GOVERNOR COLANOVIC ANNOUNCED THAT YUGOSLAVIA WOULD MAINTAIN RESERVES AT OR NEAR THIS LEVEL. THE NATIONAL BANK WILL KEEP 1 BILLION DOLLARS IN MANDATORY PERMANENT HARD CURRENCY RESERVES AND ANOTHER BILLION IN "CURRENT" RESERVES. THE REMAINING 600 MILLION DOLLARS WILL BE HELD IN COMMERCIAL BANKS. ONE HUNDRED SEVENTY MILLION DOLLARS OF THESE RESERVES HAVE BEEN PLACED IN LIMITED OFFICIAL USE

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IBRD BONDS AND, IF THE TARGETED RESERVE LEVEL CAN BE MAINTAINED,

YUGOSLAV BANKING AUTHORITIES PLAN TO PLACE SOME ADDITIONAL AMOUNTS IN SAFE SECURITIES, POSSIBLY IN THE UNITED STATES.

8. INDUSTRIAL PRODUCTION: INDUSTRIAL PRODUCTION IN 1976 INCREASED BY 3.4 PERCENT OVER 1975. WHILE THIS WAS SIGNIFICANTLY BELOW THE 6 PERCENT SPECIFIED IN THE 1976 DEVELOPMENT PLAN, IT WAS A DISTINCT IMPROVEMENT OVER THE STAGNATION IN THE FIRST HALF OF THE YEAR. THE GROWTH RATE RESULTED MUCH MORE FROM DEMAND FOR CONSUMER GOODS THAN FROM CAPITAL INVESTMENT. GROWTH WAS PARTICULARLY STRONG IN THE LAST TWO MONTHS OF THE YEAR, AVERAGING 8 PERCENT HIGHER THAN THE LAST TWO MONTHS OF 1975. DESPITE THIS GROWTH, INVENTORIES HAVE CONTINUED TO DECREASE ONLY SLIGHTLY FROM THE MID-YEAR LEVELS, PARTICULARLY IN NON-METALS, FERROUS METALLURGY, TOBACCO, AND THE TEXTILE INDUSTRY. FERROUS METALLURGY (DOWN 6 PERCENT AS COMPARED TO 1975) AND CONSTRUCTION (DOWN 1 PERCENT) WERE THE ONLY SECTORS SHOWING DECREASED PRODUCTION IN 1976. HIGHEST INCREASES WERE IN TOBACCO (UP 17 PERCENT), ELECTRICAL ENERGY (UP 9 PERCENT) AND FOOD PROCESSING AND PETROLEUM (EACH UP 7 PERCENT).

9. PRICES: LED BY SHARPLY HIGHER FOOD PRICES, THE COST OF LIVING JUMPED 3.7 PERCENT IN NOVEMBER AND AN ADDITIONAL 2.6 PERCENT IN DECEMBER. FOR 1976 AS A WHOLE, THE COST OF LIVING INCREASED 12 PERCENT OVER THE DECEMBER 1975 LEVEL. RETAIL PRICES OVER THE YEAR INCREASED BY 9.1 PERCENT AND PRICES AT THE PRODUCER LEVEL BY 7.5 PERCENT. THIS LEVEL IS MANAGEABLE IN YUGOSLAVIA, AND THE 1977 DEVELOPMENT RESOLUTION CALLS FOR PRICE INCREASES DURING THE YEAR TO BE NO GREATER THAN THOSE IN 1976. THE PRESSURES FOR PRICE INCREASES REPORTED IN EARLIER EMBASSY CABLES HAS NOT BEEN ALLEVIATED, HOWEVER, BY THE INCREASES IN NOVEMBER AND DECEMBER. ON THE CONTRARY, THE FEDERAL EXECUTIVE COUNCIL ANNOUNCED RECENTLY THAT PRICE INCREASES IN THE FIRST TEN DAYS OF 1977 TOTALLED 3 PERCENT OR ABOUT ONE-THIRD OF THE INCREASES ANTICIPATED FOR THE ENTIRE YEAR. FURTHER INCREASES, PARTICULARLY IN THE ENERGY SECTOR, LIMITED OFFICIAL USE

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ARE A NEAR-CERTAINTY.

10. EMPLOYMENT PRODUCTIVITY AND WAGES: EMPLOYMENT AS OF NOVEMBER 1976 REACHED A TOTAL OF 5,041,000 PERSONS (4,948,000 IN THE SOCIAL SECTOR AND 93,000 IN THE PRIVATE SECTOR). THIS WAS 3.8 PERCENT HIGHER THAN NOVEMBER 1975. UNEMPLOYMENT OVER THAT PERIOD INCREASED BY 14 PERCENT TO A TOTAL OF 667,000. THE 3.8 PERCENT RISE IN EMPLOYMENT, COMBINED WITH A RATE OF GROWTH OF INDUSTRIAL PRODUCTION LESS THAN THAT AMOUNT, LED TO A SLIGHT DECREASE IN PRODUCTIVITY FOR THE FIRST 11 MONTHS OF 1976. THIS IS LIKELY TO BE TRUE FOR THE FULL YEAR AS WELL. NOMINAL WAGES INCREASED BY 13 PERCENT FROM OCTOBER 1975 TO OCTOBER 1976. REAL WAGES DURING THAT PERIOD INCREASED BY 6 PERCENT.

11. MONEY SUPPLY AND FOREIGN BORROWING: LATEST FIGURES SHOW THAT THE MONEY SUPPLY IN NOVEMBER WAS 46 PERCENT HIGHER THAN LAST NOVEMBER AND 42 PERCENT HIGHER THAN DEC 1975. AN EMBASSY OFFICER WAS TOLD BY A SENIOR NATIONAL BANK OFFICIAL THAT THE INCREASE FOR THE ENTIRE YEAR IS ABOVE 50 PERCENT. AS OF THE END OF OCTOBER, LIQUIDITY IN ENTERPRISES WAS UP 71 PERCENT OVER OCT 1975.

12. SAME OFFICIAL TOLD EMBOFF THAT THE 1977 INCREASE IN MONEY SUPPLY IS CURRENTLY PROJECTED AT 18 PERCENT. HE ADDED, HOWEVER, THAT THE NATIONAL BANK INTENDS TO RETAIN MUCH MORE FLEXIBILITY

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IN 1977 THAN IN 1976. AS AN EXAMPLE OF THIS FLEXIBILITY, THE NATIONAL BANK WILL NOT ANNOUNCE THE SIZE OF THE PRIMARY ISSUE, NOR THE EXACT AMOUNTS TO BE ALLOCATED FOR VARIOUS PROJECTS. THE BANK DOES NOT WANT TO BE LOCKED INTO SPECIFIC SUMS AND THUS LOSE THE ABILITY TO RESPOND TO A VARIETY OF SCENARIOS, AS HAPPENED IN 1976 AND PREVIOUS YEARS. HE POINTED OUT THAT THE IDEAL INCREASE IN MONEY SUPPLY FOR THE CURRENT ISSUE HAS NOT BEEN TARGETED YET. ONE MAJOR FACTOR UNDER CONSIDERATION IS THE AMOUNT OF MONEY REQUIRED BY THE HUNDREDS OF NEW FIRMS BEING FORMED BY THE LAW ON ASSOCIATED LABOR, EACH ONE REQUIRING ITS OWN FINANCIAL BASE.

13. BANK OFFICIAL SAID THAT THE BANK IS PROJECTING A 400 MILLION DOLLAR DEFICIT ON CURRENT ACCOUNT IN 1977. THE AMOUNT OF FOREIGN BORROWING, WHICH TOTALLED 1.3 BILLION DOLLARS IN 1976, (RAISING TOTAL FOREIGN DEBT TO ABOUT 7.7 BILLION DOLLARS) WILL BE REDUCED. SHORT-TERM BORROWING IN PARTICULAR WILL CONTINUE TO BE DISCOURAGED.

14. COMMENT: THE COMMENTS IN REFTEL ARE STILL APPLICABLE.
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SINCE THEY WERE WRITTEN, THE MAJOR CONCERN HAS BEEN THE JUMP IN THE COST OF LIVING AND THE STRONG INDICATIONS OF FURTHER INCREASES TO COME. THE FEC HAS MADE PRICE STABILITY THE CORNERSTONE OF THE ECONOMIC STABILIZATION PROGRAM AND IT WAS PARTICULARLY INSISTENT THAT 1977 PRICE INCREASES BE NO GREATER THAN THOSE EXPERIENCED IN 1976. IT IS NOW FACED WITH THE NECESSITY OF TAKING STRONG ACTION TO SUPPORT THE PROGRAM IN THE FIRST MONTH OF THE YEAR.

15. OF THE 15 SOCIAL ACCORDS WHICH DETERMINE INVESTMENT IN SPECIFIC PRIORITY SECTORS FOR THE FIVE YEAR MEDIUM-TERM DEVELOPMENT PLAN 1976-1980, FIVE HAVE RECENTLY BEEN SIGNED INTO LAW AND PUBLISHED. THESE ARE IN THE SECTORS OF BASIC CHEMISTRY, MACHINE AND SHIPBUILDING, NON-METALS, RAILROADS, AND COMMUNICATIONS (BASICALLY THE POSTAL, TELEPHONE AND TELEGRAPH SERVICES). WHILE THEY WILL ALL BE FORWARDED AT A LATER DATE WHEN TRANSLATED, A BRIEF SUMMATION WOULD BE THAT THEY ARE UNEVEN. SOME DELINEATE INVESTMENTS BY AMOUNT AND BY PRODUCT INTO SPECIFIC REPUBLICS AND PROVINCES. OTHERS, REFLECTING DISAGREEMENTS AMONG THE SIGNERS, ARE LESS SPECIFIC. NONETHELESS, THEY CONSTITUTE PROGRESS TOWARD ORDERLY, COORDINATED INVESTMENT.

16. EMBASSY AIRGRAM WILL PROVIDE SANITIZED UNCLASSIFIED VERSION FOR INCLUSION IN COMMERCE FMR SERVICE AND DISTRIBUTION TO U.S. BANKING AND BUSINESS COMMUNITY. YORK

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